Health and Social Care Levy

Employment Tax Personal tax

28 September 2021

Bill Dodwell summarises the tax changes announced in the Health and Social Care Levy Bill

On 9 September, the Prime Minister announced to the House of Commons (see bit.ly/2XgFe6B) that the government would:

> '…create a new UK-wide 1.25% health and social care levy on earned income, hypothecated in law to health and social care, with dividends rates increasing by the same amount. This will raise almost £36 billion over the next three years, with money from the levy going directly to health and social care across the whole of our United Kingdom.'

Details of the changes were published by the government (see bit.ly/3hzcjSn) with a distributional analysis (see bit.ly/3nClsgZ). The House of Commons supported the measures with an indicative vote on 8 September.

From 6 April 2022

From 6 April 2022, the rates of Class 1 and Class 4 national insurance will be increased by 1.25%, to become those shown in the table on the right. There are no changes to Class 2 (self-employed) or to Class 3 (voluntary contributions).

The rates of income tax on dividends will increase by 1.25% from 6 April 2022 and will become 8.75% (basic rate); 33.75% (higher rate); and 39.35% (additional rate).

From 6 April 2023

From 6 April 2023, a new Health and Social Care levy will be introduced at 1.25% and the national insurance rates will be reduced by 1.25%.

The levy will be payable by employed and self-employed individuals, including those above state pension age in relation to their employment/self-employment income.

The national insurance threshold of £9,568 (individuals) and £8,840 (employers) will also apply to the levy, which will use the national insurance base and be collected through PAYE or Self Assessment.

Existing NICs reliefs to support employers will apply to the levy:

- Companies employing apprentices under the age of 25, all people under the age of 21 and veterans will not pay the levy for these employees as long as their yearly gross earnings are below £50,270.
- Employers in freeports will not pay the levy for freeport employees with yearly gross earnings below £25,000.

The Employment Allowance, which reduces the smallest businesses' employer NICs bills by up to £4,000, will also apply to the levy.

Forecast

The government will present detailed figures on the revenue raised at the next Budget. It estimates these changes will raise about £12 billion annually, of which £11.4 billion will come from NIC/the new levy and £600 million from the dividend tax increase.

The government will provide additional funds to compensate departments and other public sector employers in England at the Spending Review for the increased cost of the levy and provide Barnett consequentials on this funding to the devolved administrations.

Image

Class 1	Employee	13.25%	Above £9,568 primary threshold
Class 1	Employee	3.25%	Above £50,270 upper earnings limit
Class 1	Employer	15.05%	Above £8,840
Class 4	Self employed	10.25%	Above £9,568 lower profits limit
Class 4	Self employed	3.25%	Above £50,270 Upper earnings limit

HMRC: THE ECONOMIC IMPACT OF THE LEVY

HMRC's Policy Paper on the Health and Social Care Levy (published 9 September) includes information on the anticipated economic impact of the Bill (see bit.ly/3tJa9EV).

The measure is anticipated to have a significant macroeconomic impact, with consequences including but not limited to for earnings, inflation and company profits. Behavioural effects are likely to be large, and these will include decisions around whether to incorporate or not, and business decisions around wage bills and recruitment.

Impact on individuals, households and families

The levy will be paid by employed and self-employed individuals earning above the primary threshold and lower profits limit (£9,568 in 2021/22). In 2022/23, an individual earning the median basic rate taxpayer's income of £24,100 would be expected to pay an additional £180; and an individual earning the median higher rate taxpayer's income of £67,100 would be expected to pay an additional £715. Actual losses for individual taxpayers will vary according to individual circumstances.

There may be an impact on family formation, stability or breakdown as individuals, who are currently just about managing financially, will see their disposable income reduce.

Impact on business, including civil society organisations

This measure is expected to have a significant impact on over 1.6 million employers who will be required to introduce this change. One-off costs will include familiarisation with the change and could also include updating software or systems to reflect the change. A further one-off cost could include updating employee payroll records to reflect this change. This measure will also impact payroll software providers who will have one-off cost of familiarisation and will also be required to update software to reflect this change, the cost of which may be passed onto customers.

Customer experience is expected to remain broadly the same as this measure does not significantly alter how employers interact with HMRC.